The value of trust to the economy

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Foreword

PwC wants to help build trust in society. That is our right to exist, our purpose. Trust has been the foundation of our services for 130 years, ever since PwC started as an accounting firm. Dutch accountant Theodore Limperg (1879-1961) put it very eloquently in 1926 in his 'Leer van het gewekte vertrouwen' or: 'Doctrine of aroused trust' (box 1). Today, PwC offers not only accounting services but also tax and advisory services. For these, it is equally true that their basis is trust.

To contribute to trust in society, it is necessary, as Limperg also wrote, to understand what determines trust and what role trust plays in the economy. We explore that in this essay.

Box 1: Trust as the foundation of the accounting profession
The normative core of the doctrine of aroused trust is thus this: the accountant is obliged to perform his work in such a way that he does not betray the expectations which he arouses in the sensible layman; and, conversely, the accountant must not arouse greater expectations than are justified by the work performed.

Doctrine therefore requires the accountant to determine in each particular case what expectations he arouses; to account for the content of the confidence he arouses in the performance of each specific function. For this purpose it is necessary for him to have an insight into the factors which determine the content of that confidence.

Source: Limperg (1926).

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What is trust?

Trust is the willingness to depend on the integrity or competence of others, assuming their good intentions. Academic work distinguishes between 'low- and high-radius trust', that is, trust in acquaintances or people who are similar and trust in complete strangers (Knack, 2001; Uslaner, 2018). It is mainly this latter type of trust that is important for economic development and growth (Algan & Cahuc, 2014).

This is often referred to as social or mutual trust.[1] It is measured by a standard question used worldwide. In the World Values Study (*WVS*) and many other surveys, it is phrased as follows: 'Do you generally think that most people can be trusted or do you think that one cannot be too careful when dealing with people?' This line of questioning leads to a score of 1 (can be trusted) or zero (no trust).

In large and complex societies, people are more likely not to know each other. Trust is then essential to establish economic transactions. Without trust, screening strangers' intentions, monitoring their behavior, and drafting comprehensive contracts would be so expensive that economic transactions would be discouraged (Zak & Knack, 2001). When people trust each other, it is possible to enter into economic transactions without paying those high transaction costs because people count on the integrity of their counterparty in fulfilling the agreement.

1 Wherever the term trust is used in this essay, it refers to this mutual trust, except when it is explicitly stated that it refers to trust in specific organizations or institutions.

Trust and economic growth

Because trust facilitates economic activity, societies with higher levels of trust tend to be more economically developed than societies with lower levels (Bjørnskov, 2012). This is also because higher levels of trust make citizens and businesses want to contribute with taxes to the provision of public services through the government. For example, education and healthcare are essential for building human capital, and the more human capital the better a society can develop. Something similar applies to the construction of power grids, roads and dikes, because good infrastructure is essential for economic activity and development.

Another channel through which trust can contribute to economic development is the channel of political economy. A higher level of trust can increase public support for effective economic policies, such as activating social security and making the labor market more flexible. Such policies are more difficult to implement in a distrustful society (Algan & Cahuc, 2014; Graafland & de Gelder, 2023).

Confidence, moreover, is an important determinant of economic growth. This occurs primarily through the savings and investment channel. When people have confidence in the stability of the economy and the financial system, they are more inclined to save a portion of their income. This is because they have confidence in financial institutions such as banks and trust that their savings are safe and will provide a reasonable return. A higher savings rate increases the supply of capital, which is essential for financing investment (Zak & Knack, 2001; Matlhaku, 2024). Banks and other financial intermediaries can convert savings into loans for businesses.

It is not only depositors' trust in financial institutions that matters. So is the trust that financiers have in innovative companies. Here, moral hazard plays a role because entrepreneurs often have information that potential investors do not. Investors may therefore hesitate to finance for fear of unknown risks or unethical behavior by the entrepreneurs. When investors have confidence in the integrity and trustworthiness of an entrepreneur, they are more likely to finance potentially risky projects (Algan & Cahuc, 2014). For example, banks may provide loans with lower interest rates and less stringent conditions if they have confidence in companies' ability to repay. Investors will put more risk capital into party they trust. Thus, trust lowers the cost for those companies to obtain capital and encourages investment in new projects, research and development, and expansion of production capacity. This ultimately promotes economic growth.

Figure 1 shows the relationship between trust and GDP per capita for 88 countries. Confidence was measured using the aforementioned WVS data. GDP was adjusted for purchasing power differences by country. The data show what theory already predicted: the higher the confidence, the higher the GDP per capita. The explanatory power of this simple correlation analysis is quite high with an R2 of almost 0.53. This means that more than half of the variation in GDP per capita can be explained on the basis of trust. The remaining part of the variation is caused by other factors.

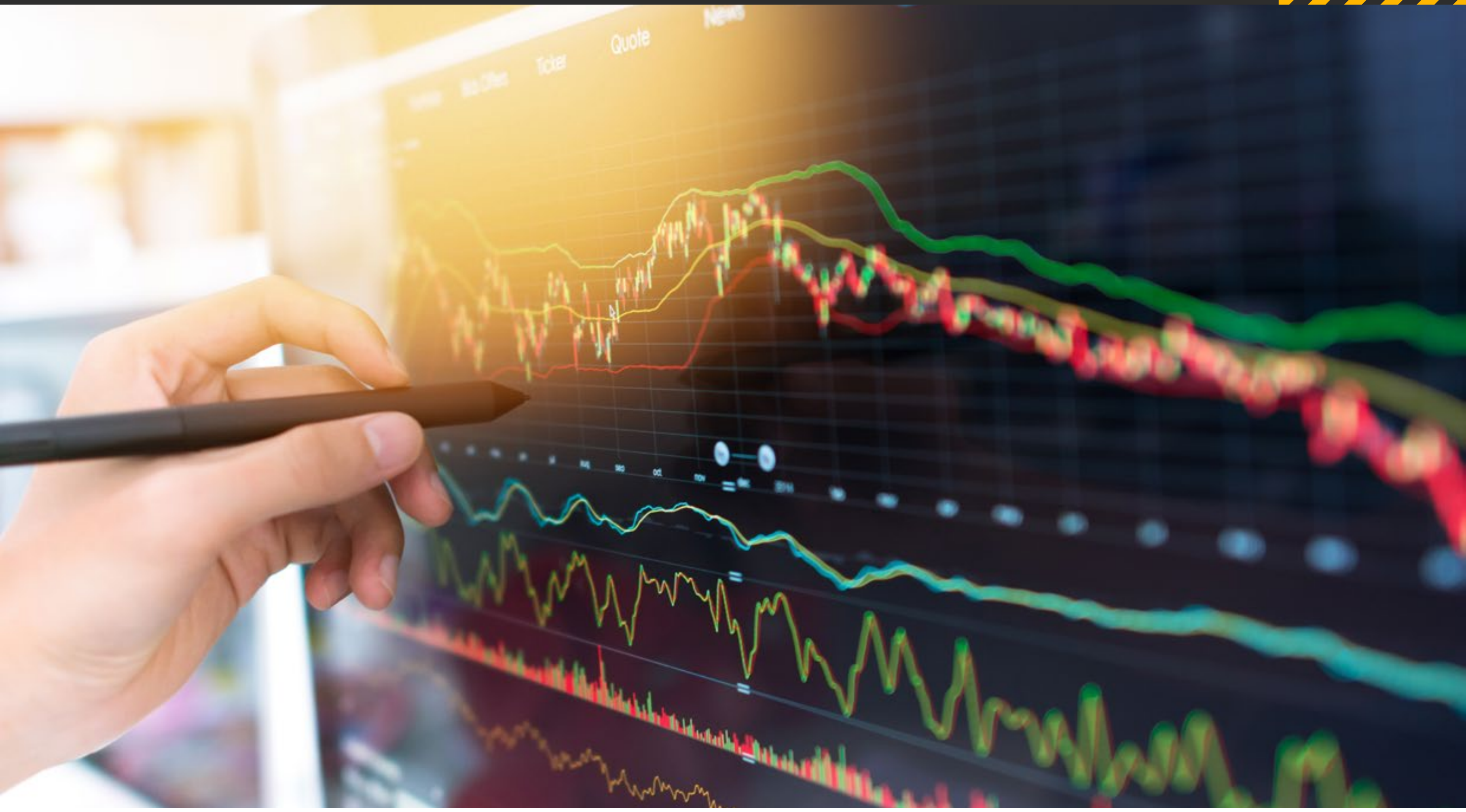
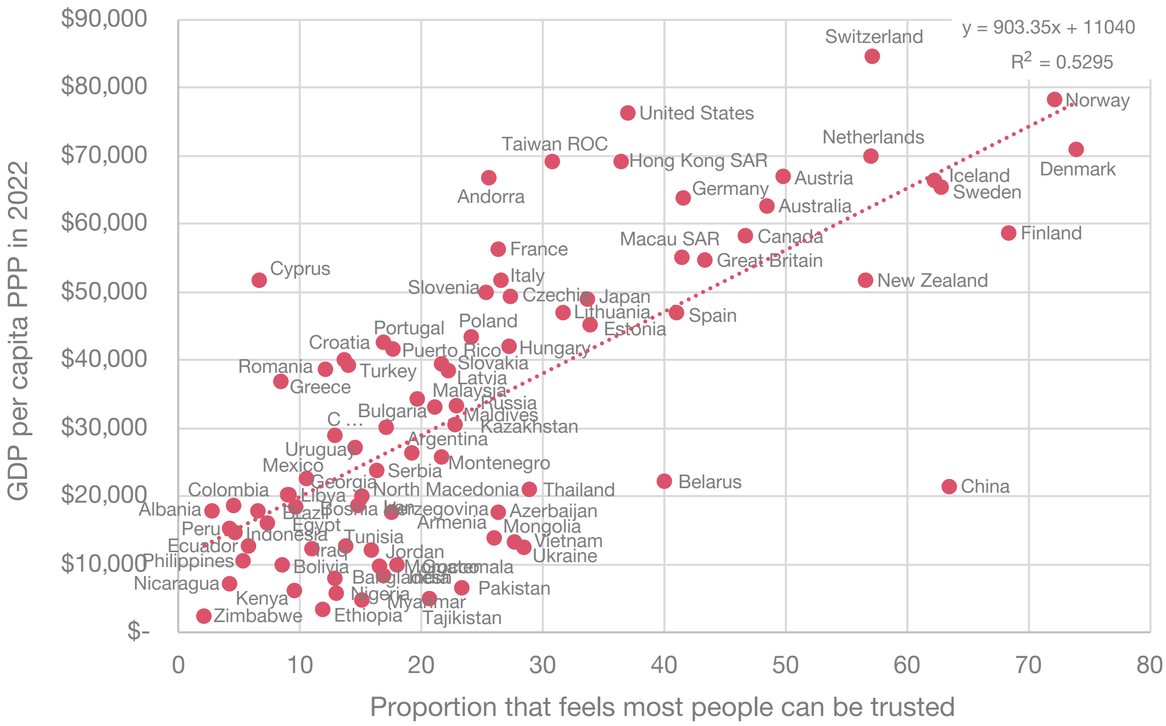


Figure 1 strong correlation between mutual trust and gdp per capita in 2022 (or latest available data)



Source: *World Values Survey* Wave 7: 2017-2022 & IMF's *World Economic Outlook database*. GDP is presented in terms of the Purchasing Power Parity (PPP). In this way, the difference in value between different countries is normalized by looking at the purchasing power of different currencies.

Trust and happiness in life

Not only at the country level but also at the individual level, higher levels of trust have been found to correlate with higher levels of income. Economics, however, is not purely about financial prosperity as measured by GDP or income. Central is prosperity in the broad sense, say: happiness in life. Confidence is shown to be positively related to that as well (Graafland, 2023). This is through several channels, such as better social interactions and social cohesion, stronger feelings of belonging, less complex decision-making in daily life and less violent crime. The positive link is confirmed by biological evidence, which shows that greater trust from others increases oxytocin levels[2] and that a lack of mutual trust activates the parts of the brain most active in pain and aversion (Algan and Cahuc, 2014).

Trust and economic inequality

Trust is an important link in the negative effect of inequality on economic growth. The more unequal a society, the greater the likelihood of dishonest or deceptive behavior in a transaction, and thus the lower the level of trust (Alesina & La Ferrara, 2002). This works through two channels (Gould & Hijzen, 2016). Inequality of outcomes (e.g., income inequality) reduces trust by increasing the social distance between individuals, making them less alike. Inequality of opportunity does not work through this channel of familiarity and trustedness, but reduces trust through the channel of fairness and honesty. When people have the perception that other groups have obtained their positions and privileges unfairly, it lowers trust in those other groups.

Empirical research shows that the negative effect of various inequality measures, such as poverty risk and the top 1%'s share of national income, on trust is indeed negative (Gould & Hijzen, 2016). Inequality has a significant negative effect on trust among individuals between the ages of 20 and 45. Above that age, the effect declines and is no longer significant. One possible explanation for the different effects by age is that inequality (or the perception of inequality) is higher among younger individuals.

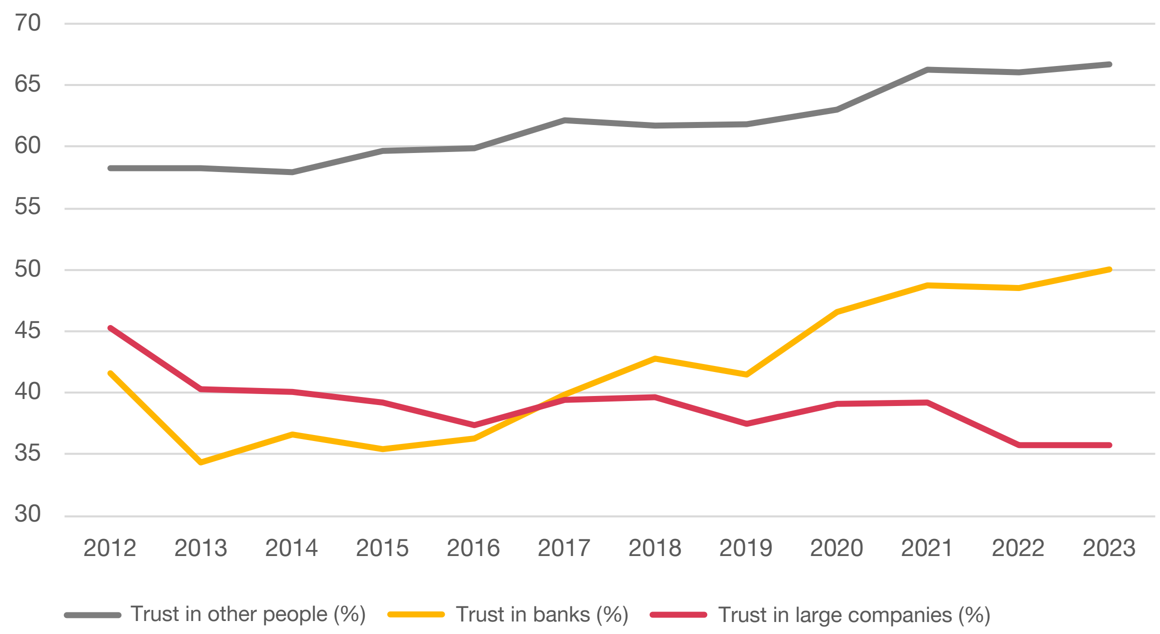
2 Oxytocin is a hormone and neurotransmitter that plays an important role in connecting social contacts with feelings of pleasure. It plays a central role in parental bonding, friendships and romantic interactions, as well as sexuality. Source: Wikipedia.

What is the state of trust in the Netherlands?

Statistics Netherlands (CBS) measurements show that the proportion of people who trust other people has increased 58.3% to 66.7% over the past decade. This places mutual trust in the Netherlands among the top five 'high trust' countries. In contrast, trust in large companies plummeted from 2012 to 2022 (from 45.3% to 35.8%) and remained at 35.8% in 2023 (Figure 2). Banks, on the other hand, are gradually regaining the trust they lost in the aftermath of the financial crisis, ending up at 50.0% in 2023.

The decline in trust in large companies during this period is greater than in any other institution in the CBS measurement. Trust in the House of Representatives (Tweede Kamer in Dutch) also declines, but less, by 7.3 percentage points to 29.0%. This makes the House of Representatives the least trusted institution in 2023, although politicians score even lower at 23.8%, but that score has only been measured since 2016. Nevertheless, citizens' trust in the European Union rises from 39.2% in 2012 to 47.1% in 2023. The most trusted institutions are judges (77.5%) and police (77.4%) (Figure 3).

Figure 2 Trust in other people rises by over 8 percentage points, while trust in lae companies falls by almost 10 percentage points (2012-2023)



Bron: CBS Statline (2024), edited PwC.

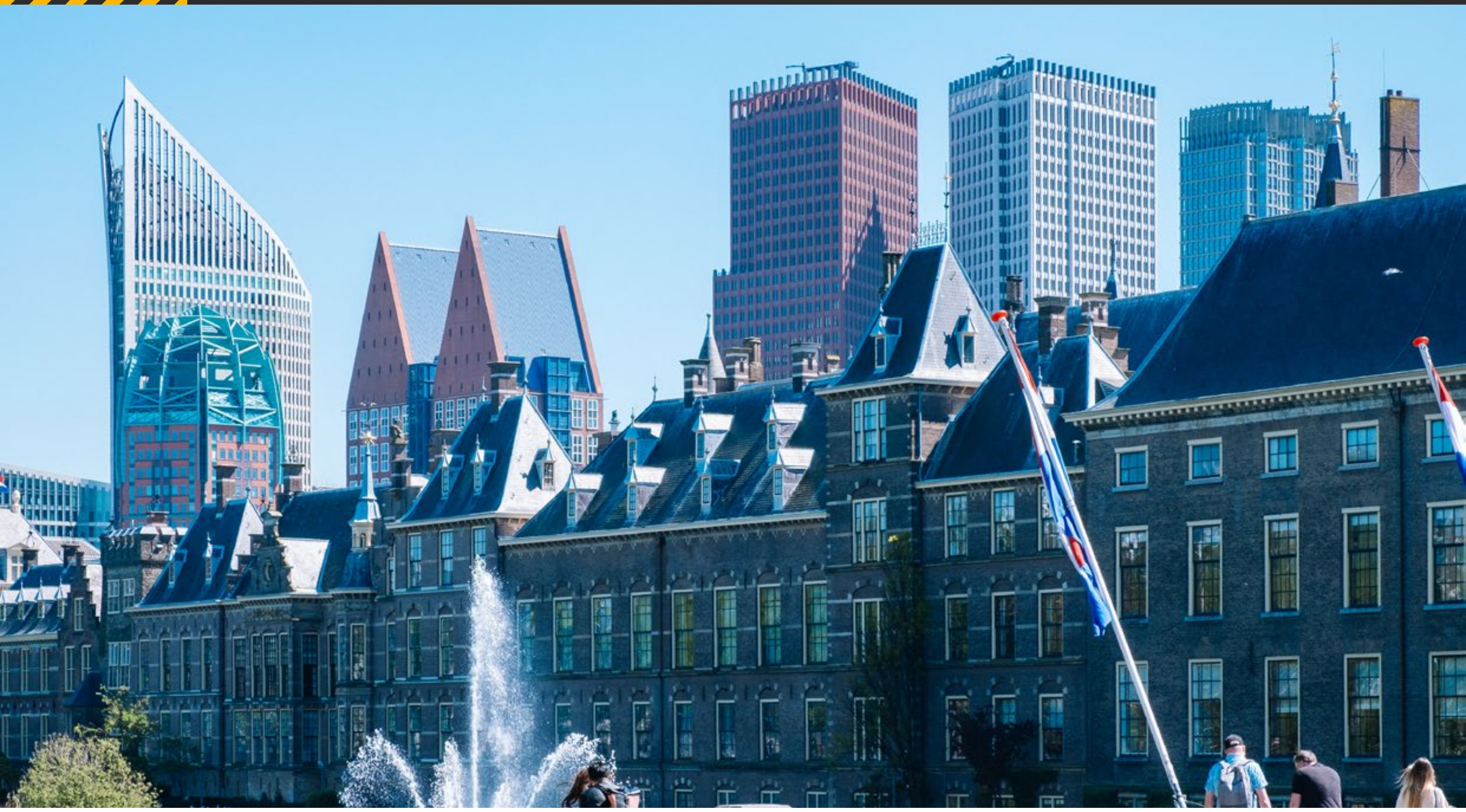
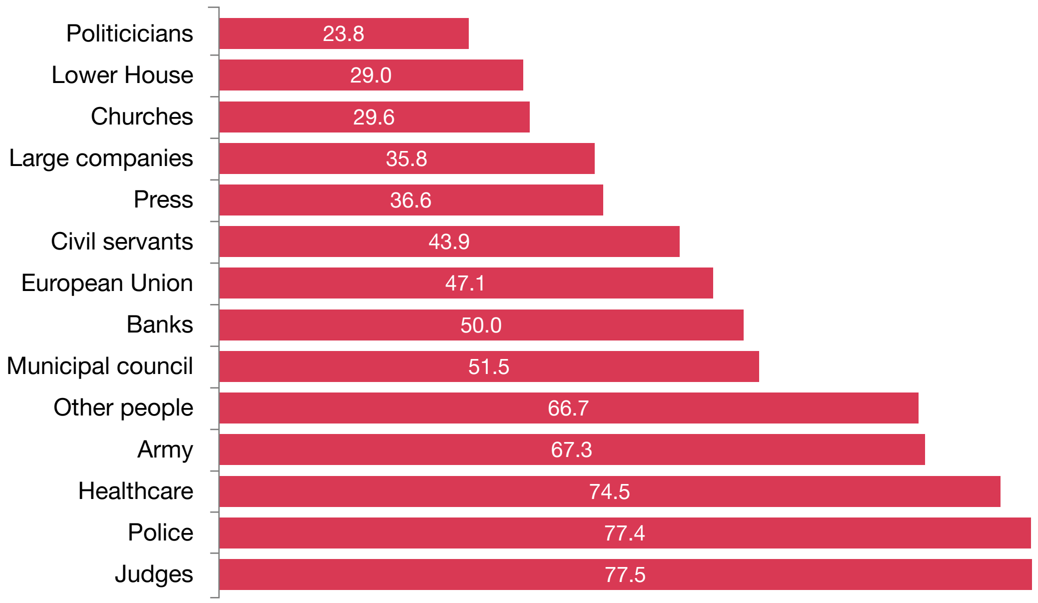


Figure 3 The trust gap between the least (politicians) and most trusted institution (judges) is almost 54%

(Percentage of people who trust other people or institutions, 2023)



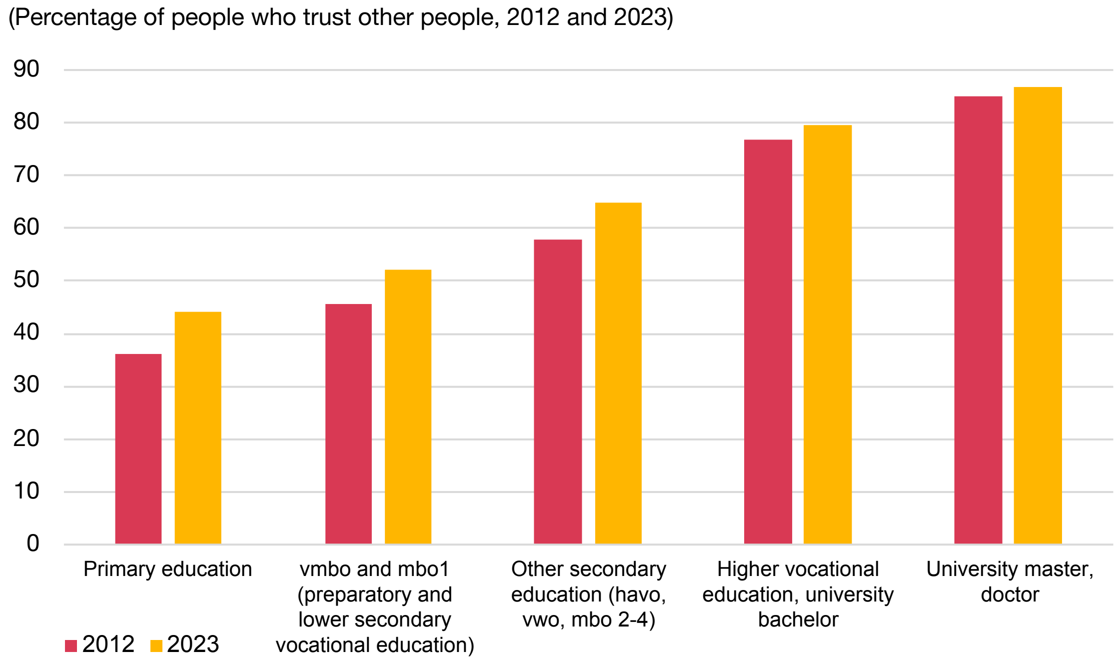
Source: CBS Statline (2024), edited PwC.

In-depth: Mutual trust

Within some groups, more citizens trust other people than other groups. That difference is not related to gender (66.5% for men and 66.9% for women in 2023) nor to the degree of urbanity (67.2% in very highly urbanized areas versus 68.2% in rural areas). Trust in other people does correlate with age, although this is not purely a matter of old versus young. Those over 75 and 15 to 25 years old have the least trust in other people (60.7% and 61.3%, respectively), while the trust of 55 to 65 year olds is more than 10 percentage points higher (71.4%). Origin is also a determining factor: residents born in the Netherlands to Dutch parents are more than 21 percentage points more likely to trust other people than residents born outside Europe (70.7% versus 49.3%).

The biggest difference, however, is between groups with different levels of education (see Figure 4). While 44.2% of citizens with only primary education say they trust other people, this is more than 42 percentage points higher for those with a university education (86.8%). It is notable that the level of trust in other people among those with higher education is pretty much constant at a high level between 2012 and 2023, while the proportion of those with lower and secondary education has significantly increased their trust in other people during this period.

Figure 4 Trust levels different between people with different education levels (percentage of people who trust other people, 2012 and 2023)



Source: CBS Statline (2024), edited PwC.

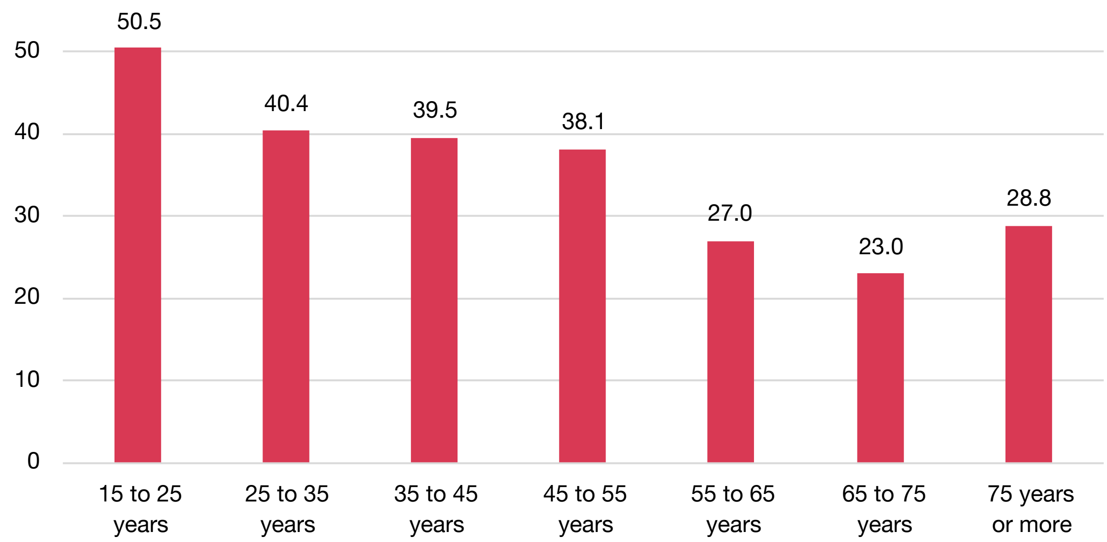
In-depth: trust in large corporations

The proportion of citizens who trust large companies is not strongly related to gender, origin, level of education or degree of urbanity. However, age is a distinguishing factor. Figure 5 shows that young people are more likely to trust large companies than older people. The difference between 15 to 25 year olds and 65 to 75 year olds is more than 27 percentage points. Younger people may have had fewer negative experiences with large companies, such as fraud or environmental disasters. Also, the fact that younger people tend to be more familiar with technology may play a role, as large companies often operate in the tech sector or work a lot with technology.

Looking through time, it is noticeable that after 2012 it is mostly university-educated people who lose trust in large companies (minus more than 13 percentage points), while the decline for people with only primary education is much more limited (minus almost 4 percentage points).

Figure 5 Young people trust large companies more often

(Percentage of people who trust large companies, 2023)



Source: CBS Statline (2024), edited PwC.

Looking ahead: trust under pressure

Mutual trust is the cement in a society, not only because it drives economic growth, but also because it provides connection in times of polarization. There are four trends that threaten the high level of trust in the Netherlands. By the way, these trends also affect trust in other developed countries.

The first trend is increasing inequality. In the Netherlands, it is not so much a matter of income inequality, which is low internationally and has been fairly stable since the 1980s.[3] On the contrary, wealth inequality has increased since then and is relatively high, even when pension savings are taken into account (Vicq et al., 2023; Arts & Pouwels, 2020). Furthermore, confidence is under pressure from increasing opportunity inequality. This is related to the labor market where people with permanent contracts have many certainties, while those working in temporary or flexible employment experience insecurity. The current design of education also increases opportunity inequality, including early selection, declining educational quality and the rise of private tutoring (Inspectie van het Onderwijs, 2021).

The second trend is increasing diversity and ethnic, linguistic, religious and cultural heterogeneity as a result of globalization and increased immigration. While immigration also brings economic and cultural benefits, in the short term it can have an adverse effect on trust by increasing social distance between groups. However, this effect may be dampened in the longer term by increasing interaction between people from different cultural backgrounds. This allows for gradual adjustment of beliefs, revision of prejudices and growing familiarity between groups that were previously distant from each other.

Third, rapidly succeeding technological developments can put pressure on trust between people.Surveys show that individuals feel that the risks of new technologies are not adequately covered by companies and governments, particularly when it comes to protecting personal data and privacy (PwC, 2023). If plans to mitigate those risks are substandard or not properly communicated, innovation can further erode trust, especially in governments and companies.

A final trend is increasing geopolitical instability due to trade conflicts and wars (including in Ukraine and the Middle East). This can lead to polarization within and between countries, increasing social distance within societies and eroding mutual trust.

Our mutual trust is a precious asset. Governments can foster this with policies aimed at reducing wealth and opportunity inequality, promoting interaction between and integration of groups with different cultural backgrounds, and effectively regulating risks associated with new technology. As a member of the European Union, the Netherlands could further engage in (economic) diplomacy and cooperation to prevent (trade) conflicts.

3 *https://www.cbs.nl/en-gb/news/2024/27/income-inequality-in-the-netherlands-is-well-below-the-eu-average*

What can companies do to regain trust?

Companies also have a responsibility when it comes to trust. Not only by trying to regain citizens' trust in companies, but also by contributing to societal trust. A first step is for company executives to have a realistic picture of the trust people have in their companies. The PwC Trust Survey (2023) shows that directors greatly overestimate that trust. Part of a realistic picture also includes identifying the key drivers of trust in the company. These could include data protection or achievement of certain environmental goals.

Large companies can take several steps to increase trust. By setting quantifiable trust goals and making business units responsible for achieving them, there is more focus on increasing trust in the company. Communication with stakeholders about trust can often be improved as well. More openness about ethical standards, anti-fraud policies, decision-making processes and dilemmas can help increase trust, as can creating a contingency plan for specific trust-related crises. Part of communicating is also listening: by actively listening to and responding to stakeholder concerns and feedback, companies can demonstrate their commitment to the community they are part of. The latter can also be done by being involved in and contributing to social issues in society.

That companies feel responsible for restoring social trust and are already taking these steps is evident from the CEO Survey published in early 2025. We asked Dutch CEOs what actions their company has taken to this end in the past 12 months. Only 1 in 10 ceo's did not take any specific actions. The remaining almost 90% do. About half say they report transparently on dilemmas in sustainability and annual reports and/or have dialogue sessions with customers and other stakeholders. About a third of ceo's give interviews in newspapers and on radio and television and/or have regular discussions with politicians and policy makers to help restore social trust.

The basis for trust in companies has been and will continue to be producing high-quality products and services at a reasonable price within legal and social standards and within ecological limits.

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